



STATE OF WASHINGTON  
**DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT**  
ENERGY POLICY DIVISION

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December 9, 2005

Ms. Carole J. Washburn  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504-7250

Re: Docket # UG-051651; Cascade Natural Gas "Application for an Order Authorizing the Establishment of a Decoupling Mechanism and Deferred Accounting Treatment for Changes in Margin Due to Conservation and Due to Variances from Normal Weather Decoupling Mechanism Proposal"

Dear Ms. Washburn:

On behalf of the Department of Community, Trade and Economic Development's (CTED) Energy Policy group I am submitting comments in response to the Cascade Natural Gas (Cascade) decoupling filing referenced above. One of CTED's statutory responsibilities is to "provide support for increasing cost-effective energy conservation." In this context we want to support Cascade Natural Gas in its efforts to further develop its energy efficiency resource; state and federal policies recognize cost-effective energy efficiency as the lowest cost resource. We applaud Cascade for several components imbedded in its decoupling filing such as the expansion of customer energy efficiency programs and the inclusion of one million dollars to reduce energy costs to its low income customers. However, because the Cascade filing does not meet, at this time, threshold principals that we consider critical for an effective decoupling mechanism, we ask the Commission to oppose Cascade's current decoupling filing, docket number UG-051651.

Our comments, including the attached explanation of our principals as they relate to decoupling proposals, focus on the policy issues. The attachment explains in more detail that there are a number of possible mechanisms for treating rate-payer funded energy efficiency that energy utilities and regulatory commissions could implement in order to encourage the conservation and the more efficient use of energy resources. Such mechanisms include 1) funding an independent third-party to implement energy efficiency, 2) establishing a lost margin recovery mechanism, 3) implementing a decoupling mechanism, or 4) offering utility incentives

for achievement of targets. Have the utilities and commission and stakeholders considered the risks and benefits to the companies and the customers of these various mechanisms?

If a decoupling mechanism is selected as the preferred approach – as Cascade has selected one – then the attachment outlines CTED’s threshold principals that we believe should be addressed before considering a decoupling proposal. These principals cause us to recommend that the Commission reject the current Cascade filing.

- I. The filing does not address how the shift in risks from the utility to the customers reduces costs to the customers.
- II. The filing does not clearly outline the energy efficiency targets for the company as determined by supply curve analysis nor does it clearly describe the budgets or staffing for its new efficiency programs. While we are very supportive of Cascade’s position as stated in its letter to the Governor to take a “leadership role in attempting to secure decoupling in Washington so we can place ourselves side-by-side with our customers in the promotion of energy conservation” and we are extremely supportive of Cascade’s intent to direct one million dollars in funding to increase the affordability of natural gas service to its low-income customers, we are concerned that the filing does not clearly convey the scope of programs or the scope of budgets that Cascade will provide and fund in its efforts to capture energy efficiency for its customers.
- III. Cascade has not proposed its decoupling mechanism in the context of a general rate case. Its last rate case was settled 9 ½ years ago.
- IV. The filing does not include a sufficient evaluation plan.

We thank the Commission for the opportunity to provide comments’ regarding Cascade’s decoupling filing. We thank the management at Cascade Natural Gas for proposing a path that would increase the company’s investment in capturing energy efficiency and lowering energy costs for its low income customers. We oppose this filing at this time because it does not address principals that we consider critical for a decoupling proposal. If we can be of assistance in future discussions or analysis of these issues, please let us know.

Sincerely,

Elizabeth C. Klumpp  
Sr. Energy Policy Analyst

**Supporting Achievement in Utility Acquisition of Energy Efficiency**  
**Issue: Decoupling Principals**  
November 7, 2005

Washington Department of Community, Trade and Economic Development  
Energy Policy

Under Washington's current form of regulation, utilities have a profit interest in higher sales volumes, and this can adversely affect their interest in acquiring conservation. The principal reason for implementing an alternative mechanism for treating rate-payer funded energy efficiency is to encourage the conservation and the more efficient use of energy resources. There are a number of possible mechanisms to address this situation.

- A. One approach to this is to create a separate entity to implement DSM, such as the **Energy Trust of Oregon**. Under this approach, the utility has no role in conservation program implementation, and the party that is implementing the programs has no conflict with utility revenues.
- B. Another alternative is to break the link between sales volumes and profits, through a **lost margin recovery** mechanism. Lost margin mechanisms can be simple, replacing the distribution margin lost when conservation programs reduce loads between rate cases.
- C. Another approach is to have a formal **decoupling mechanism** that includes a true-up of sales margins from all or some sources of variation, including weather, prices, number of customers, business cycle, and conservation.
- D. Finally, one approach is to provide **incentives**, likely financial, for utilities that successfully achieve energy efficiency targets as established through resource supply curve analysis.

### **Decoupling Principals**

Outlined below are threshold policy issues that need to be addressed by any energy utility decoupling proposal.

1. **Mechanisms that shift the risk of sales volume variations from shareholders to ratepayers by definition significantly reduce risks of revenue loss to a utility. Any reduction in utility revenue risk due to a decoupling mechanism shall be accompanied by a reduction in costs to consumers.**

Briefly, decoupling mechanisms provide greater revenue stability to energy utilities by decoupling or separating commodity sales from revenue. The company earns a minimum amount of revenues per year regardless of possible influences such as the weather or conservation or economic climate.

The increased stability in revenues and the corresponding shift of risk away from the company to the customers needs to translate into a reduction in overall utility costs to the customers. For example, this could translate into a

lower equity-debt ratio for the companies. Since equity requires a higher rate of return than debt, a lower equity ratio would be one strategy to reduce costs to customers through a decoupling mechanism. There are other approaches that can effectively reduce costs to consumers as revenue risk to a utility decreases.

**2. Decoupling mechanisms shall be accompanied by comprehensively designed and effectively funded energy efficiency programs that pass the Utilities and Transportation Commission's cost-effectiveness tests.**

Energy efficiency does, temporarily, reduce revenue to energy companies until the companies get their revenues and sales true-up in a rate case. Energy companies may indicate that a decoupling mechanism reduces the company's disincentive to support energy efficiency programs. Reducing the disincentive to utilities to support energy efficiency is not sufficient.

Because energy efficiency continues to be society's lowest cost approach to supporting affordable energy service and because customers do not particularly value energy efficient products, energy companies need to support the market for energy efficient products and services with marketing, consumer education, and financial incentives to customers purchasing energy efficient equipment or services.

Energy utility decoupling proposals need to include supply curve analysis, or rely on the work of competent analysts elsewhere in the state or region, to determine the magnitude of available, cost-effective energy efficiency available in its service territory. These proposals must offer their customers a full-range of cost-effective energy efficiency programs to encourage customer participation.

**3. Energy companies filing decoupling proposals shall do so in the context of a general rate case.**

Energy utilities have costs that increase over time – such as labor costs, often fuel costs, etc., but may have some costs that decrease over time such as administrative costs per customer. It is important for any company proposing a decoupling mechanism to have a recent rate case for any number of reasons including these two. First, the parties need recent customer consumption data and second to true-up not just the company's increasing costs, but to true-up a company's potentially decreasing costs.

Because introduction of a decoupling mechanism is a fundamental shift of risk, and the allowed capital structure is only addressed in a general rate case, it is implausible to implement a decoupling mechanism outside of the rate case process.

Simpler mechanisms that do not relieve the utility of all risk of sales variations, such as a lost margin recovering mechanism (B above), a financial incentive for achieving an efficiency target (D above) or creation of a separate conservation funding entity (A above), may not require a rate case to implement.

**4. An evaluation plan shall be included in decoupling proposals.**

Minimally, evaluations shall address the following.

- Is there reasonable proof of additional conservation and energy efficiency as a result of a utility decoupling mechanism? Can the evaluation isolate the effects of weather or energy rates or economic climate (e.g., business closures) from the consumption effects of energy efficiency? What was the impact on energy use?
- Assess the risk impacts to the utility, to its customers and across the utility's class of customers.

**Pilot**

When a decoupling mechanism is first proposed by an energy utility then it is recommended that the utility file the proposal as a pilot with a strong evaluation component. The evaluation shall at least address the evaluation components outlined above. While the time frame for pilots vary depending upon the stated objectives and the need for data for evaluation, such a decoupling pilot may need to be implemented for twelve to thirty-six months with the ability to intermittently review, revise or discontinue as necessary.